Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Financial and Compliance Report
July 31, 2013

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
Southeastern Baptist Theological Seminary, Inc.
Wake Forest, North Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and subsidiary (the Seminary), which comprise the consolidated statements of financial position as of July 31, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southeastern Baptist Theological Seminary, Inc. and subsidiary as of July 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information and Schedule of Expenditures of State Awards

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of state awards as required by North Carolina General Statute 143C-6.23 and the North Carolina Education Assistance Authority is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 16, 2013 and October 16, 2012 on our consideration of the Seminary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seminary's internal control over financial reporting and compliance.

McGladrey LLP

Raleigh, North Carolina
October 16, 2013

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Financial Position
July 31, 2013 and 2012

	2013	2012
Assets		
Cash	$ 10,322,955	$ 8,901,982
Accounts and notes receivable, less allowance for doubtful accounts 2013 $112,933; 2012 $141,296	472,621	434,964
Prepaid expenses and other assets	401,638	369,895
Investments (Notes 2 and 5)	24,309,883	22,379,353
Assets held for sale (Note 5)	20,000	20,000
Unamortized debt issuance costs (Note 9)	110,866	196,060
Cash restricted for capital projects (Note 9)	882,187	-
Property and equipment, net (Note 3)	38,486,404	38,905,063
Beneficial interests in split-interest agreements (Notes 4 and 5)	2,903,277	2,710,902
Total assets	$ 77,909,831	$ 73,918,219
Liabilities and Net Assets		
Accounts payable and other accrued expenses	$ 1,449,062	$ 811,444
Student deposits	790,222	746,795
Deferred revenue	815,240	752,060
Postretirement benefit liability (Note 7)	8,049,661	9,511,254
Bonds payable (Note 9)	7,500,000	6,775,000
Capital lease obligation (Note 15)	279,654	340,517
Total liabilities	18,883,839	18,937,070
Commitments and Contingencies (Notes 6, 7, 8, 9, 15, and 16)		
Net assets (Note 14)		
Unrestricted (Note 10)	31,268,938	29,115,704
Temporarily restricted (Note 11)	9,771,328	9,512,321
Permanently restricted (Note 12)	17,985,726	16,353,124
Total net assets	59,025,992	54,981,149
Total liabilities and net assets	$ 77,909,831	$ 73,918,219

See Notes to Consolidated Financial Statements.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Activities
Years Ended July 31, 2013 and 2012

	2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, gains, and other support:				
Gross tuition and fees	$ 10,805,467	$ -	$ -	$ 10,805,467
Less institutional grants	1,391,902	-	-	1,391,902
	9,413,565	-	-	9,413,565
Sales and services of auxiliary enterprises	4,199,684	-	-	4,199,684
SBC Cooperative Program	7,674,387	-	-	7,674,387
Private gifts and bequests	927,587	518,085	1,449,204	2,894,876
Investment return designated for current operations (Note 2)	259,230	681,254	-	940,484
Distributions received from beneficial interests in split-interest agreements (Note 5)	-	136,979	-	136,979
Other income	540,684	4,004	-	544,688
Total revenues, gains and other support	23,015,137	1,340,322	1,449,204	25,804,663
Net assets released from program restrictions (Note 13)	1,156,235	(1,156,235)	-	-
Expenses:				
Educational and general:				
Instruction	10,026,010	-	-	10,026,010
Administrative and general	6,994,359	-	-	6,994,359
Operation and maintenance of plant	2,443,357	-	-	2,443,357
Total educational and general	19,463,726	-	-	19,463,726
Auxiliary enterprises	4,794,904	-	-	4,794,904
Total expenses	24,258,630	-	-	24,258,630
Change in net assets from operations	(87,258)	184,087	1,449,204	1,546,033
Other changes:				
Loss on asset held for sale (Note 5)	-	-	-	-
Investment return in excess of (less than) amounts designated for current operations (Note 2)	222,601	316,404	-	539,005
Gifts of beneficial interests in split-interest agreements (Note 5)	18,446	-	-	18,446
Change in value of beneficial interests in split interest agreements	9,315	(5,442)	193,752	197,625
Loss on extinguishment of debt (Note 9)	(181,083)	-	-	(181,083)
Transfer of endowment funds to Southwestern Baptist Theological Seminary	-	-	(225,000)	(225,000)
Reclassification of change in value of beneifcial interests in split interest agreements	-	(214,646)	214,646	-
Reclassification of underwater endowments (Note 14)	21,396	(21,396)	-	-
Changes in postretirement benefit liability other than net periodic postretirement benefit costs (Note 7)	2,149,817	-	-	2,149,817
Change in net assets	2,153,234	259,007	1,632,602	4,044,843
Net assets:				
Beginning	29,115,704	9,512,321	16,353,124	54,981,149
Ending	$ 31,268,938	$ 9,771,328	$ 17,985,726	$ 59,025,992

See Notes to Consolidated Financial Statements.

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 10,044,177	$ -	$ -	$ 10,044,177
1,137,451	-	-	1,137,451
8,906,726	-	-	8,906,726
4,178,964	-	-	4,178,964
7,743,301	-	-	7,743,301
870,122	415,851	330,748	1,616,720
238,252	718,206	-	956,458
-	119,425	-	119,425
374,981	9,044	-	384,025
22,312,346	1,262,526	330,748	23,905,620
1,233,429	(1,233,429)	-	-
9,332,450	-	-	9,332,450
6,574,711	-	-	6,574,711
2,561,353	-	-	2,561,353
18,468,514	-	-	18,468,514
4,753,639	-	-	4,753,639
23,222,153	-	-	23,222,153
323,622	29,097	330,748	683,467
(8,317)	(114,804)	(28,701)	(151,822)
(223,605)	(685,379)	-	(908,984)
-	-	175,870	175,870
3,451	(107,303)	(47,149)	(151,001)
-	-	-	-
-	-	-	-
-	-	-	-
(18,690)	18,690	-	-
(1,743,520)	-	-	(1,743,520)
(1,667,059)	(859,699)	430,768	(2,095,990)
30,782,763	10,372,020	15,922,356	57,077,139
$ 29,115,704	$ 9,512,321	$ 16,353,124	$ 54,981,149

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended July 31, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	$ 4,044,843	$ (2,095,990)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	1,983,004	1,967,632
Loss on extinguishment of debt	181,083	-
Loss on assets held for sale	-	151,822
Change in value of beneficial interests in split-interest agreements	(173,929)	151,001
Gifts of beneficial interests in split-interest agreements	(18,446)	(175,870)
Bad debt expense	69,217	15,749
Realized and unrealized (gains) losses on investments	(1,041,042)	377,017
Loss on sale or disposal of property and equipment	3,828	104
(Increase) decrease in:		
Accounts and notes receivable	(106,874)	(123,430)
Prepaid expenses and other assets	(31,743)	121,889
Increase (decrease) in:		
Accounts payable and other accrued expenses	637,618	77,148
Student deposits	43,427	(16,250)
Postretirement benefit liability	(1,461,593)	2,206,692
Deferred revenue	63,180	153,443
Contributions restricted for long-term purposes	(1,449,204)	(330,748)
Contributions restricted for property and equipment	(119,783)	(109,061)
Net cash provided by operating activities	2,623,586	2,371,148
Cash Flows From Investing Activities		
Proceeds from sale of investments	6,303,901	14,422,059
Purchase of investments	(7,193,389)	(14,268,489)
Proceeds from sale of asset held for sale	-	348,178
Purchases of property and equipment	(1,552,421)	(759,519)
Bond proceeds restricted for capital projects	(882,187)	-
Net cash used in investing activities	(3,324,096)	(257,771)

(Continued)

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)
Years Ended July 31, 2013 and 2012

	2013	2012
Cash Flows From Financing Activities		
Proceeds from contributions restricted for:		
Long-term purposes	$ 1,449,204	$ 330,748
Property and equipment	119,783	109,061
Other financing activities:		
Proceeds from issuance of bank held term loan	1,135,000	-
Payment of debt issuance costs	(111,641)	-
Payments on bonds payable	(410,000)	(395,000)
Payments on capital lease obligation	(60,863)	(24,066)
Net cash provided by financing activities	2,121,483	20,743
Net increase in cash	1,420,973	2,134,120
Cash:		
Beginning	8,901,982	6,767,862
Ending	$ 10,322,955	$ 8,901,982
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest and bond fees	$ 71,426	$ 106,367
Supplemental Disclosures of Noncash Investing and Financing Activities		
Capital lease obligations incurred for use of equipment	$ -	$ 364,583
Bonds payable refinanced with bank held term loan	$ 6,365,000	$ -

See Notes to Consolidated Financial Statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Southeastern Baptist Theological Seminary, Inc. (the Seminary) prepares men and women by means of academic studies and practical preparation for leadership roles in Baptist churches and in other Christian ministries. The Seminary is an institution of higher learning established and supported through the Cooperative Program by the Southern Baptist Convention (SBC). It is governed by the Board of Trustees who are elected by the Southern Baptist Convention. Outlined below are the accounting and reporting policies considered significant by the Seminary.

A summary of the Seminary's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of Southeastern Baptist Theological Seminary, Inc. and its wholly owned subsidiary, Southeastern Baptist Theological Seminary Foundation, Inc. (the Foundation).

Basis of presentation: In preparing its financial statements, the Seminary's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Seminary and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Seminary and/or by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Seminary. Generally, the donors of these assets permit the Seminary to use all or part of the earnings on the related investments for general or specific purposes.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and other support and expenses during the reporting period. Actual results could differ from those estimates.

Cash: The Seminary maintains deposits with certain financial institutions in amounts that are at times in excess of federal insurance limits. Cash includes temporarily restricted amounts of $5,475,829 and $5,200,593 at July 31, 2013 and 2012, respectively. Cash designated or restricted for long-term purposes is included with investments.

Accounts and notes receivable: Student accounts receivable are carried at the original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Notes receivable are carried at the original note amount plus any accrued interest less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines these allowances for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Student accounts receivable and notes receivable are written off when deemed uncollectible. Recoveries of student accounts receivable and notes receivable previously written off are recorded when received.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

A student accounts receivable is considered past due if any portion of the receivable balance is outstanding for more than 120 days. Interest is not charged on student accounts receivable. A note receivable is considered past due if the note balance and unpaid interest is outstanding past the note maturity date. After the note receivable becomes past due, it is placed on nonaccrual status and accrual of interest is suspended.

Investments: Investments in debt and equity securities are reported at fair value based upon measurements described in Note 5 determined at the financial statement date. Donated investments are initially recorded at fair value at the date of gift. Unless specifically directed by the donor, endowment contributions received by the Seminary are pooled and investments are then purchased with the funds available.

Assets held for sale: Assets held for sale include a building and land, which were donated and were recognized at estimated fair value as contribution revenue in the year of donation. Assets held for sale are reported at the lower of net carrying value or estimated fair value less cost to sell. The building was sold during the year ended July 31, 2012 as described in Note 5.

Debt issuance costs: Costs incurred in issuing outstanding bonds payable are deferred and amortized to income over the term of the bonds using a method that approximates the interest method.

Long-lived assets: Cash or other assets whose purpose is to acquire long-lived assets are recorded as unrestricted if the Seminary has internally designated such assets or restricted if such assets represent gifts received with donor-imposed restrictions. Once acquired and placed into service, all long-lived assets, primarily property and equipment, are considered unrestricted net assets.

Property and equipment: Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Land improvements	40 - 50
Buildings	40 (plus actual life prior to 1993)
Equipment	5 - 10

Assets under capital lease are amortized using the straight-line method over the shorter of the asset's estimated useful life or lease term with amortization expense being included with depreciation expense.

Property and equipment is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Seminary evaluates, on an ongoing basis, the carrying value of property and equipment based on estimated future undiscounted cash flows. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair value.

Postretirement benefits: The Seminary provides certain postretirement benefits, including health care benefits, for all retired employees that meet certain eligibility requirements. The Seminary follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 715 to account for the costs of those benefits. Under that Statement, the Seminary recognizes the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Tuition and fees: Tuition and fees revenue is reported in the fiscal year in which educational programs are primarily conducted. Scholarships and fellowships awarded to students for tuition, fees, and room and board are based upon need and merit.

Deferred student tuition: Deferred student tuition represents the tuition and fees revenue billed and received for the upcoming school year.

Functional allocation of expenses: Expenses are primarily reported in the statement of activities in categories recommended by the National Association of College and University Business Officers. The Seminary's primary program service is instruction. Expenses reported as administrative and general, operation and plant maintenance, and auxiliary enterprises are incurred in support of the primary program service. Certain costs have been allocated, based on management's judgment, to program and supporting activities.

Fund-raising expenses: Fund-raising expenses totaled approximately $435,000 and $463,000 for the years ended July 31, 2013 and 2012, respectively.

Contributions and beneficial interests: Contributions and beneficial interests received, including those from the SBC Cooperative Program, are recognized as revenues at their fair values when they become unconditional. Contributions with donor-imposed restrictions are recorded as temporarily restricted net assets until the restrictions are met or as permanently restricted net assets. At the time that temporary restrictions are met, they are reported as net assets released from restrictions. Contributions received with donor-imposed restrictions are reported as unrestricted when the donor-imposed restrictions are satisfied in the same reporting period as the receipt of the contribution. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Income taxes: The Seminary is exempt from federal and state income taxes. The federal exemption is under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Management evaluated the Seminary's tax positions and concluded that the Seminary had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of the Income Taxes Topic of the FASB ASC. With few exceptions, the Seminary is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2010.

Subsequent events: The Seminary has evaluated its subsequent events (events occurring after July 31, 2013) through October 16, 2013, which represents the date the financial statements were available to be issued.

Accounting pronouncements issued and adopted: In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which aligns disclosures related to fair value between U.S. GAAP and Internal Financial Reporting Standards. The ASU includes changes to the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and changes to the disclosure of information about fair value measurements. More specifically, the changes clarify the intent of the FASB regarding the application of existing fair value measurements and disclosures as well as changing some particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. This ASU was adopted during 2013 with no material effect on the Seminary's consolidated financial statements.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Accounting pronouncements issued but not yet adopted: In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This ASU requires any entity within the scope of ASC 958 to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit-imposed limitations for sale and were converted nearly immediately into cash. The amendments to ASU 2012-05 are effective for the Seminary's year ending July 31, 2014. ASU 2012-05 is not expected to have a material effect on the Seminary's consolidated financial statements.

Reclassifications: Certain amounts on the consolidated financial statements for 2012 have been reclassified, with no effect on net assets or the change in net assets, to be consistent with the classifications adopted for 2013.

Note 2. Investments

Investments at July 31, 2013 and 2012 consist of the following:

	2013		
	Cost	**Net Unrealized Appreciation (Depreciation)**	**Fair Value**
Short-term cash investments	**$ 733,546**	**$ -**	**$ 733,546**
Privately held common stock	**1,406,886**	**(446,000)**	**960,886**
Equities	**4,778,163**	**1,238,755**	**6,016,918**
Fixed income securities	**4,551,335**	**(27,796)**	**4,523,539**
Mutual funds and exchange-traded funds	**7,099,269**	**1,687,633**	**8,786,902**
Mortgage-backed securities	**3,258,984**	**29,108**	**3,288,092**
	$ 21,828,183	**$ 2,481,700**	**$ 24,309,883**

	2012		
	Cost	Net Unrealized Appreciation	Fair Value
Short-term cash investments	$ 858,717	$ -	$ 858,717
Privately held common stock	1,406,886	-	1,406,886
Equities	4,643,426	488,005	5,131,431
Fixed income securities	3,351,977	151,413	3,503,390
Mutual funds and exchange-traded funds	7,031,570	1,134,512	8,166,082
Mortgage-backed securities	3,144,531	168,316	3,312,847
	$ 20,437,107	$ 1,942,246	$ 22,379,353

The Seminary invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, any significant changes in risks in the near term could materially affect the Seminary's investment balance reported in the consolidated statement of financial position.

Note 2. Investments (Continued)

The following schedules summarize the investment return and its classification in the statements of activities for the years ended July 31, 2013 and 2012:

	2013			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Dividends and interest, net of expenses	**$ 109,204**	**$ 329,243**	**$ -**	**$ 438,447**
Net unrealized appreciation	**247,945**	**291,509**	**-**	**539,454**
Net realized gains	**124,682**	**376,906**	**-**	**501,588**
Total return on investments	**481,831**	**997,658**	**-**	**1,479,489**
Investment return designated for current operations	**259,230**	**681,254**	**-**	**940,484**
Investment return in excess of amounts designated for current operations	**$ 222,601**	**$ 316,404**	**$ -**	**$ 539,005**

	2012			
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Dividends and interest, net of expenses	$ 107,614	$ 316,877	$ -	$ 424,491
Net unrealized depreciation	(302,138)	(898,263)	-	(1,200,401)
Net realized gains	209,171	614,213	-	823,384
Total return on investments	14,647	32,827	-	47,474
Investment return designated for current operations	238,252	718,206	-	956,458
Investment return less than amounts designated for current operations	$ (223,605)	$ (685,379)	$ -	$ (908,984)

Investment expenses for the years ended July 31, 2013 and 2012 were $151,548 and $159,014, respectively.

Note 3. Property and Equipment

Property and equipment at July 31, 2013 and 2012 consisted of the following:

	2013	2012
Land	**$ 559,506**	$ 559,506
Land improvements	**2,141,416**	2,141,416
Buildings	**50,069,095**	49,753,251
Equipment	**9,470,404**	8,555,472
Construction in progress	**616,055**	334,429
	62,856,476	61,344,074
Less accumulated depreciation	**24,370,072**	22,439,011
	$ 38,486,404	$ 38,905,063

Note 3. Property and Equipment (Continued)

In connection with ongoing renovation projects, the Seminary has outstanding contractual commitments totaling approximately $494,000 at July 31, 2013.

Note 4. Beneficial Interests in Split-Interest Agreements

The North Carolina Baptist Foundation is administering certain deferred trust assets held for the benefit of the Seminary. These trust assets are restricted to provide that all trust income accrues to the donor for life, after which all earnings have been designated to benefit the Seminary. Such assets are not recorded on the Seminary's books because either the trust is revocable or the donor maintains the right to change beneficiaries. The North Carolina Baptist Foundation and several others also administer certain perpetual trusts for the benefit of the Seminary and distribute the earnings from such trusts annually to the Seminary. The assets in these perpetual trusts are recorded by the Seminary as Beneficial Interests in Split-Interest Agreements.

Note 5. Fair Value Measurements

ASC 820 established a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The fair value hierarchy is as follows:

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, discount values, volatilities, prepayment spreads, credit risks, etc.), or inputs that are derived principally from or corroborated by market data correlation or other means.

Level 3 Inputs: Unobservable inputs for determining the fair values of assets or liabilities that would reflect an entity's own determination about the assumptions that market participants would use in pricing the assets or liabilities.

In determining fair value, the Seminary uses various valuation approaches within the ASC 820 fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy:

Investments:

Short-term cash investments: Cash equivalents and money market funds traded in active markets are classified within Level 1 of the valuation hierarchy. Cash equivalents and money market funds traded in inactive markets are classified within Level 2 of the valuation hierarchy.

Note 5. Fair Value Measurements (Continued)

Equities and mutual funds: Equity securities and mutual funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy. The Seminary also holds shares of stock in a privately held company which are valued by comparing EBITDA multiples and actual transactions of the stock. These shares are classified within Level 3 of the valuation hierarchy.

Fixed income securities: Investments in fixed income securities include domestic and foreign corporate bonds and government and agency obligation bonds that are either exchange-traded and/or valued at last sales price. If there is no sale and the market is considered active, the securities are valued at the mean of the last bid and asked prices on such exchange. These fixed income securities are classified within Level 2 of the valuation hierarchy.

Exchange-traded funds: Investments in exchange-traded funds are investment funds that hold assets, such as stocks, commodities, and bonds, that are traded on stock exchanges. These funds are valued at the same price as the underlying assets. Such securities are classified within Level 1 of the valuation hierarchy.

Mortgage-backed securities: Investments include mortgage-backed securities and other collateralized mortgage obligations that are either exchange-traded and/or valued at last sales price. If there is no sale and the market is considered active, the securities are valued at the mean of the last bid and asked prices on such exchange. These mortgage-backed securities are classified within Level 2 of the valuation hierarchy.

Beneficial interests in split-interest agreements: The Seminary has been named as a beneficiary in split-interest agreements in which the Seminary is not the trustee. The fair value was determined primarily based on the fair value of the assets held in trusts as provided by the trustees. Under the guidelines set forth in the FASB ASC 820 fair value hierarchy, the trust assets are classified as Level 3 inputs.

Assets held for sale: The fair value of assets held for sale is categorized as Level 3 in the fair value hierarchy as the Seminary does not have access to quoted market prices. The fair value was determined using data including, but not limited to, comparable sales of similar assets.

Note 5. Fair Value Measurements (Continued)

The following tables summarize financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of July 31, 2013 and 2012:

	2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Investments:				
Short-term cash investments	$ -	$ 733,546	$ -	$ 733,546
Privately held common stock	-	-	960,886	960,886
Equities:				
US Large Cap	2,975,209	-	-	2,975,209
US Mid Cap	1,959,046	-	-	1,959,046
US Small Cap	898,966	-	-	898,966
Developed Markets	183,697	-	-	183,697
Total equities	6,016,918	-	-	6,016,918
Fixed income securities:				
US Government and agencies	-	744,995	-	744,995
Corporate	-	3,778,544	-	3,778,544
Total fixed income securities	-	4,523,539	-	4,523,539
Mutual funds and exhange-traded funds:				
Domestic bond funds	1,740,635	-	-	1,740,635
Commodity funds	1,083,624	-	-	1,083,624
International stock funds	4,635,986	-	-	4,635,986
Real estate funds	615,234	-	-	615,234
Domestic stock funds	711,423	-	-	711,423
Total mutual funds and exchange-traded funds	8,786,902	-	-	8,786,902
Mortgage-backed securities	-	3,288,092	-	3,288,092
Total investments	14,803,820	8,545,177	960,886	24,309,883
Beneficial interest in split-interest agreements	-	-	2,903,277	2,903,277
Total financial assets	$ 14,803,820	$ 8,545,177	$ 3,864,163	$ 27,213,160

Note 5. Fair Value Measurements (Continued)

	2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Investments:				
Short-term cash investments	$ -	$ 858,717	$ -	$ 858,717
Privately held common stock	-	-	1,406,886	1,406,886
Equities:				
US Large Cap	2,637,465	-	-	2,637,465
US Mid Cap	1,378,656	-	-	1,378,656
US Small Cap	921,470	-	-	921,470
Developed Markets	193,840	-	-	193,840
Total equities	5,131,431	-	-	5,131,431
Fixed income securities:				
US Government and agencies	-	78,787	-	78,787
Corporate	-	3,424,603	-	3,424,603
Total fixed income securities	-	3,503,390	-	3,503,390
Mutual funds and exhange-traded funds:				
Domestic bond funds	1,693,478	-	-	1,693,478
Commodity funds	966,863	-	-	966,863
International stock funds	4,216,560	-	-	4,216,560
Real estate funds	631,013	-	-	631,013
Domestic stock funds	658,168	-	-	658,168
Total mutual funds and exchange-traded funds	8,166,082	-	-	8,166,082
Mortgage-backed securities	-	3,312,847	-	3,312,847
Total investments	13,297,513	7,674,954	1,406,886	22,379,353
Beneficial interest in split-interest agreements	-	-	2,710,902	2,710,902
Total financial assets	$ 13,297,513	$ 7,674,954	$ 4,117,788	$ 25,090,255

Note 5. Fair Value Measurements (Continued)

The following table reconciles the beginning and ending balances of financial assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended July 31, 2013 and 2012:

	Privately Held Common Stock	Beneficial Interests in Split-Interest Agreements
Beginning balance, August 1, 2011	$ 1,406,886	$ 2,686,033
Contributions	-	175,870
Distributions from split-interest agreements	-	(119,425)
Change in value before distributions	-	(31,576)
Ending Balance, July 31, 2012	1,406,886	2,710,902
Contributions	**-**	**18,446**
Distributions from split-interest agreements	**-**	**(136,979)**
Change in value before distributions	**-**	**310,908**
Unrealized losses	**(446,000)**	**-**
Ending balance, July 31, 2013	**$ 960,886**	**$ 2,903,277**

Unrealized losses on the privately held common stock are included in the investment return in excess of (less than) amounts designated for current operations.

Certain assets are measured at fair value on a nonrecurring basis in accordance with ASC 820 (for example, when there is evidence of impairment). The following table summarizes financial assets measured at fair value on a nonrecurring basis by classification within the fair value hierarchy as of July 31, 2013 and 2012:

	Assets held for sale			
	Total	**Level 1**	**Level 2**	**Level 3**
Fair value at July 31, 2013	**$ 20,000**	**$ -**	**$ -**	**$ 20,000**
Fair value at July 31, 2012	20,000	-	-	20,000

During the year ended July 31, 2012, the Seminary sold certain assets held for sale for $348,178 recognizing a loss on the sale of these assets of $151,822.

Note 6. Retirement Plan

Permanent employees of the Seminary who normally work at least half time are participants in a retirement annuity plan sponsored by Guidestone Financial Resources of the Southern Baptist Convention. The Seminary contributes 10% of each eligible participant's compensation to the plan and will match an employee's contribution up to 5%. Retirement fund investments are self-directed by the plan participants and the Seminary has no further funding obligation once the contribution has been made. The Seminary's contribution to the plan for 2013 and 2012 was $809,900 and $794,869, respectively.

During 2013, the Seminary established a nonqualified deferred compensation plan for the benefit of the President of the Seminary. The primary purpose of the plan is to provide additional compensation to the President upon termination of employment with the Seminary. The Seminary does not match employee contributions to the plan and has recorded no asset or liability on the consolidated statement of financial position.

Note 7. Postretirement Benefits

The Seminary sponsors a postretirement benefit plan for all employees that meet the eligibility requirements. The plan provides health care and life insurance benefits and is noncontributory and unfunded.

Net periodic postretirement benefit costs recognized as expenses included the following components for the years ended July 31, 2013 and 2012:

	2013	2012
Service cost-benefits attributable to service during the year	**$ 385,679**	$ 266,790
Interest on accumulated postretirement benefit obligation	**344,379**	372,837
Amortization of unrecognized transition obligation	**129,060**	129,060
Amortization of net experience losses	**138,911**	1,253
	$ 998,029	$ 769,940

The accumulated postretirement benefit obligation recognized on the accompanying consolidated statements of financial position includes the following components and activity as of and for the years ended July 31, 2013 and 2012:

	2013	2012
Benefit obligation at beginning of year	**$ 9,511,254**	$ 7,304,562
Service cost-benefits attributable to service during the year	**385,679**	266,790
Interest on accumulated postretirement benefit obligation	**344,379**	372,837
Benefits paid by the Seminary	**(309,805)**	(306,768)
Actuarial gain	**(1,374,837)**	(46,201)
Effect of change in discount rate assumption	**(1,008,789)**	1,777,014
Effect of change in mortality, withdrawal, and trend assumptions	**501,780**	143,020
Benefit obligation at end of year	**$ 8,049,661**	$ 9,511,254

Accumulated postretirement benefit obligation included the following components that have not yet been recognized as components of net periodic postretirement benefit costs at July 31, 2013 and 2012 but which have been reflected as a reduction to unrestricted net assets, apart from expenses, on the accompanying consolidated statements of activities for the years ended July 31, 2013 and 2012:

	2013	2012
Net transition obligation	**$ 242,560**	$ 371,620
Net experience losses	**612,875**	2,633,632
	$ 855,435	$ 3,005,252

The following amounts included in accumulated postretirement benefit obligation at July 31, 2013 and 2012 that have not yet been recognized as components of net periodic postretirement benefit costs but are expected to be recognized as components of periodic postretirement benefit costs in 2014:

Amortization of unrecognized transition obligation	$ 129,060

For measurement purposes, an 8.00% annual rate of increase in per capita health care costs of covered benefits was assumed for 2013 with such annual rate of increase gradually declining to 5.00% by 2019. An 8.50% annual rate of increase in per capita health care costs of covered benefits was assumed for 2012 with such annual rate of increase gradually declining to 5.00% by 2019. If assumed health care cost trend rates were increased by 1 percentage point in each year, the accumulated postretirement

Note 7. Postretirement Benefits (Continued)

benefit obligation at July 31, 2013 and 2012, would be increased by approximately $206,000 (2.56%) and $73,000 (0.77%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2013 and 2012, would be increased by approximately $11,500 (1.55%) and $7,000 (1.13%), respectively.

If assumed health care cost trend rates were decreased by 1 percentage point in each year, the accumulated postretirement benefit obligation at July 31, 2013 and 2012, would be decreased by approximately $183,000 (2.28%) and $57,000 (0.60%), respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit costs for the years ended July 31, 2013 and 2012, would be decreased by approximately $9,800 (1.34%) and $5,500 (0.86%), respectively.

The weighted average discount rate used in estimating the benefit obligation and net periodic benefit cost at July 31, 2013 and 2012, was 4.45% and 3.55%, respectively.

The benefits expected to be paid by the Seminary in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows:

Year Ending July 31,	Amount
2014	$ 433,652
2015	420,813
2016	456,681
2017	481,303
2018	503,313
2019-2023	2,708,226

Note 8. Line of Credit

At July 31, 2013 and 2012, the Seminary has an unsecured line of credit with a bank with available borrowings up to $1,500,000. Borrowings under the line of credit were at LIBOR plus 1.85%, not to decrease below a minimum rate of 3%, and require monthly interest payments. There were no outstanding borrowings under the line of credit agreement during the years ended July 31, 2013 and 2012. The outstanding balance and all accrued but unpaid interest will be due on February 12, 2014. The loan agreement associated with the line of credit contains various covenants, including the requirement to maintain minimum tangible net worth of $40,000,000, total unrestricted net assets of $25,000,000, and minimum liquidity of $3,000,000.

Note 9. Bonds Payable and Bank Held Term Loan

During 2005, the Colorado Educational and Cultural Facilities Authority (the Authority), pursuant to a trust agreement dated March 1, 2005, with The Bank of New York Trust Company, N.A. (the Trustee), issued revenue bonds in the amount of $8,955,000 (the 2005 Bonds). The Authority loaned the proceeds of the bonds through ASCI Capital Corporation (ASCI) to the Seminary pursuant to a loan agreement between ASCI and the Seminary in which the Seminary was obligated to make payments to the Trustee in amounts sufficient to pay the principal and interest on the bonds. The bonds had variable rates with an average interest rate of 0.16% at July 31, 2012 (reset weekly) and matured on March 1, 2025, subject to various optional and potential mandatory redemptions prior to that date. A portion of the bond proceeds were used to repay previously existing debt of the Seminary with the balance of the remaining proceeds used for the cost of the acquisition, construction and equipping a student housing facility and a facilities management building. The bonds were collateralized by a direct pay irrevocable letter of credit which

Note 9. Bonds Payable and Bank Held Term Loan (Continued)

contained certain covenants, including a debt service coverage requirement. During July 2013, the remaining balance due on the 2005 Bonds was refunded using part of the proceeds received by the Seminary in conjunction with the Loan Agreement discussed below. The amount outstanding at July 31, 2012 on these bonds was $6,775,000.

On July 2, 2013, the Seminary entered into a Bond Purchase and Loan Agreement whereby the Public Finance Authority (the Public Authority) issued on behalf of the Seminary a $7,500,000 aggregate principal amount of the Public Authority's Educational Facilities Revenue Refunding Bond, Series 2013 (the 2013 Bonds). The 2013 Bonds were then purchased from the Public Authority by the same bank which provides the line of credit, with the proceeds loaned to the Seminary by the Public Authority through a promissory note, which was assigned to the bank without recourse. In connection with these transactions, the Seminary entered into a guarantee agreement with the bank to guarantee payment of all obligations from the 2013 Bonds. The bonds are subject to optional redemption, in whole or part, in the event the Seminary elects to prepay the term loan. Prepayment is allowed provided advance notice is provided by the Seminary. The bonds are also subject to mandatory redemption within 45 days of the occurrence of any event which has the effect of causing interest paid or payable on the 2013 Bonds to become taxable. The proceeds from the term loan were designated to be used to refinance the outstanding 2005 Bonds, to pay certain issuance costs, and to finance the acquisition and installation of a new energy-efficient boiler system. At July 31, 2013, $882,187 was held by the escrow agent and is restricted for the boiler project. The Seminary also terminated the letter of credit which collateralized the 2005 Bonds in connection with the refinancing.

Interest on the term loan accrues at a variable rate equal to the sum of 70% of the one-month LIBOR (0.19% at July 31, 2013) plus 1.25%, with monthly principal and interest payments beginning August 1, 2013. The loan matures on March 1, 2025. The term loan contains certain restrictive covenants, including a minimum liquidity and unrestricted net assets requirement as well as a debt service coverage ratio requirement and certain reporting requirements. The loan is collateralized by a deed of trust to real property and assigned rents and leases of assigned property. The total amount outstanding at July 31, 2013 on these bonds was $7,500,000.

Total interest expense and bond fees for the years ended July 31, 2013 and 2012, was $56,001 and $95,891, respectively.

Required principal payments anticipated by the Seminary on the term loan are as follows:

Year Ending July 31,	Amount
2014	$ 685,668
2015	535,668
2016	554,332
2017	575,004
2018	594,336
Thereafter	4,554,992
	$ 7,500,000

During the year ended July 31, 2013, the Seminary capitalized $111,641 of debt issuance costs related to the issuance of the 2013 Bonds. Expected amortization is approximately $9,000 over each of the next five years. The Seminary accounted for the refinancing of the 2005 Bonds as an extinguishment of its bonds payable and recorded a loss on extinguishment of debt during 2013 of $181,083, related to the write-off of unamortized issuance costs.

Note 10. Unrestricted Net Assets

Unrestricted net assets include board-designated amounts for endowment purposes at July 31, 2013 and 2012 of $5,788,369 and $5,562,622, respectively. These amounts are affected by investment return and appropriations subsequent to designation.

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets as of July 31, 2013 and 2012, are available for the following purposes:

	2013	2012
Purposes restrictions:		
Scholarships	**$ 3,900,425**	$ 4,066,242
Project renovations	**2,442,648**	2,433,197
Faculty	**1,535,568**	1,191,451
Institutional support	**1,025,064**	805,328
Lectures and awards	**268,145**	243,236
Library	**217,830**	203,699
Remainder trusts	**-**	220,088
Other	**381,648**	349,080
	$ 9,771,328	$ 9,512,321

Note 12. Permanently Restricted Net Assets

Permanently restricted net assets at July 31, 2013 and 2012 are restricted to:

	2013	2012
Investment in perpetuity, the income from which is expendable to support:		
Faculty	**$ 7,097,138**	$ 6,428,243
Scholarships	**6,842,090**	6,368,053
Institutional support	**3,027,266**	2,729,471
Lectures and awards	**362,336**	361,976
Library	**280,983**	278,583
Project renovations	**216,798**	186,798
Remainder trusts	**159,115**	-
	$ 17,985,726	$ 16,353,124

Note 13. Net Assets Released From Donor Restrictions

Net assets during the years ended July 31, 2013 and 2012 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	2013	2012
Purpose restrictions accomplished:		
Scholarships	**$ 628,412**	$ 476,077
Faculty	**260,832**	510,774
Project renovations	**128,595**	73,457
Library	**16,412**	16,819
Lectures and awards	**15,929**	28,189
Institutional support	**57,875**	47,438
Other	**48,180**	80,675
	$ 1,156,235	$ 1,233,429

Note 14. Endowment Funds

The Seminary's endowment funds consist of over 300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Seminary's Board of Trustees has interpreted the North Carolina enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (NCUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Seminary classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Seminary in a manner consistent with the standard of prudence prescribed by NCUPMIFA. In accordance with NCUPMIFA, the Seminary considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the Seminary and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of investments
- Other resources of the Seminary
- The investment policy of the Seminary

The Seminary's Board of Trustees has a standing Audit and Investment Committee comprised of five trustees. The Committee is charged with the oversight of the Seminary's investments and operates under a Board-approved Investment Policy Statement. The Statement defines the parameters within which investments may be made. The overall investment objective as defined in the document is "to preserve, over time, the principal value of the assets as measured in real, inflation adjusted terms." The absolute

Note 14. Endowment Funds (Continued)

goal is an annual real rate of return of 8 percent. Asset allocation ranges, benchmark indices, risk tolerances, and rebalancing procedures are specified within the Investment Policy Statement.

The Board's current endowment spending policy is to distribute an amount equal to 5 percent of a rolling three-year average of the endowment investments. This spending policy is consistent with the average long-term return expectation, intended to provide support of donors' intent and additional growth of the endowment funds.

The Seminary's Board of Trustees authorizes endowment expenditures at the time it approves the annual fiscal year's operating budget based upon the endowment earnings available at that time, consistent with the Seminary's endowment spending policy. The actual expenditure of these appropriations occurs at various times during the fiscal year for which they are appropriated. From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level that the donor or NCUPMIFA requires the Seminary to retain as a fund of perpetual duration. At July 31, 2013 and 2012, the aggregate amount that the fair values of these endowments was below the donor or NCUPMIFA required levels was $83,201 and $104,598, respectively, and are reported within unrestricted net assets.

These deficiencies are generally due to unfavorable market fluctuations that occurred within the Seminary's investment portfolio. During the years ended July 31, 2013 and 2012, appropriations of $23,516 and $5,814, respectively, were made on funds with deficiencies.

Note 14. Endowment Funds (Continued)

The following table summarizes changes in endowment net assets for the years ended July 31, 2013 and 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, August 1, 2011	$ 5,680,116	$ 3,325,779	$ 13,611,464	$ 22,617,359
Contributions	-	-	330,748	330,748
Interest, other investment income, net of expenses, and realized and unrealized gains (losses), and other gains (losses)	34,850	32,828	(28,701)	38,977
Appropriations of endowment assets for expenditure	(238,252)	(718,206)	-	(956,458)
Net asset reclassification of underwater endowments	(18,690)	18,690	-	-
Endowment net assets, July 31, 2012	5,458,024	2,659,091	13,913,511	22,030,626
Contributions	**-**	**-**	**1,449,204**	**1,449,204**
Interest, other investment income, net of expenses, and realized and unrealized gains, and other gains	**484,978**	**1,443,657**	**-**	**1,928,635**
Reinvestment of prior years appropriations	**-**	**145,487**	**-**	**145,487**
Appropriations of endowment assets for expenditure	**(259,230)**	**(681,254)**	**-**	**(940,484)**
Transfer of endowment funds to Southwestern Baptist Theological Seminary	**-**	**-**	**(225,000)**	**(225,000)**
Net asset reclassification of underwater endowments	**21,396**	**(21,396)**	**-**	**-**
Endowment net assets, July 31, 2013	**$ 5,705,168**	**$ 3,545,585**	**$ 15,137,715**	**$ 24,388,468**

Note 14. Endowment Funds (Continued)

The following tables summarize the composition of endowment net assets by fund type as of July 31, 2013 and 2012:

	2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds:				
Faculty	**$ -**	**$ 1,222,186**	**$ 6,885,438**	**$ 8,107,624**
Scholarships	**(71,647)**	**1,780,373**	**5,326,884**	**7,035,610**
Institutional support	**-**	**298,720**	**2,065,276**	**2,363,996**
Lectures and awards	**(2,738)**	**135,063**	**362,336**	**494,661**
Library	**(8,816)**	**96,302**	**280,983**	**368,469**
Project renovations	**-**	**12,941**	**216,798**	**229,739**
	(83,201)	**3,545,585**	**15,137,715**	**18,600,099**
Board-designated endowment funds	**5,788,369**	**-**	**-**	**5,788,369**
Total endowment net assets	**$ 5,705,168**	**$ 3,545,585**	**$ 15,137,715**	**$ 24,388,468**

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Faculty	$ -	$ 739,563	$ 6,237,701	$ 6,977,264
Scholarships	(91,388)	1,506,404	5,041,490	6,456,506
Institutional support	(41)	214,144	1,806,963	2,021,066
Lectures and awards	(3,698)	118,072	361,976	476,350
Library	(9,314)	76,108	278,583	345,377
Project renovations	(157)	4,800	186,798	191,441
	(104,598)	2,659,091	13,913,511	16,468,004
Board-designated endowment funds	5,562,622	-	-	5,562,622
Total endowment net assets	$ 5,458,024	$ 2,659,091	$ 13,913,511	$ 22,030,626

Note 15. Lease Commitments

The Seminary has various operating leases primarily for office equipment and student housing that expire between 2014 and 2016. Total rental expense under cancelable and noncancelable operating leases was $1,874,404 and $1,882,795 for 2013 and 2012, respectively.

During the year ended July 31, 2012 the Seminary entered into a capital lease obligation to finance the purchase of equipment with a cost of $364,583 and accumulated depreciation as of July 31, 2013 and 2012 of $73,785 and $37,209, respectively.

At July 31, 2013, the future minimum lease payments under non-cancelable operating leases and capital leases were as follows:

Year Ending July 31,	Operating	Capital
2014	$ 1,417,926	$ 84,000
2015	216,510	84,000
2016	5,823	84,000
2017	-	70,000
	$ 1,640,259	322,000
Less amount representing interest (rate of 7.39%)		42,346
Present value of minimum lease payments		$ 279,654

Note 16. Contingencies

In accordance with the Asset Retirement and Environmental Obligations Topic of the FASB ASC (ASC 410-20), the Seminary has identified several facilities that have conditional asset retirement obligations related to asbestos abatement. The Seminary has not recorded a liability for these conditional asset retirement obligations due to the Seminary being unable to reasonably estimate the fair value of the liability. Fair value of such a liability could not be reasonably estimated as the Seminary has not specified plans that would require abatement of the asbestos and, therefore, settlement dates for these conditional asset retirement obligations are not known nor can they be reasonably estimated.

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Statements of Activities Information
Years Ended July 31, 2013 and 2012

Cooperative Program, Southern Baptist Convention	**2013**	2012
Churches/miscellaneous	**$ 189,350**	$ 203,998
Alabama	**704,887**	715,544
Alaska	**9,124**	8,838
Arizona	**32,617**	32,178
Arkansas	**358,911**	349,399
California	**83,032**	85,727
Colorado	**21,427**	23,625
Dakota Fellowship	**1,878**	1,795
District of Columbia	**1,311**	1,338
Florida	**505,660**	515,136
Georgia	**658,439**	780,988
Hawaii Pacific	**15,669**	14,683
Illinois	**104,587**	95,861
Indiana	**33,950**	37,200
Iowa	**3,889**	3,884
Kansas-Nebraska	**25,353**	24,800
Kentucky	**388,280**	381,878
Louisiana	**316,147**	317,250
Maryland-Delaware	**74,942**	72,024
Michigan	**10,938**	12,702
Minnesota-Wisconsin	**2,723**	2,541
Mississippi	**476,066**	458,971
Missouri	**219,156**	223,227
Montana Fellowship	**4,383**	4,189
Nevada	**10,770**	8,801
New England	**4,059**	3,478
New Mexico	**36,309**	37,704
New York	**7,733**	8,400
North Carolina	**417,200**	415,707
Northwest	**28,337**	27,124
Ohio	**73,160**	68,257
Oklahoma	**475,894**	410,542
Pennsylvania-South Jersey	**8,414**	8,163
South Carolina	**459,164**	464,293
Tennessee	**573,626**	590,274
Texas, BGCT	**450,258**	459,255
Texas, SBTC	**601,697**	582,002
Utah-Idaho	**6,036**	6,870
Virginia, BGAV	**63,218**	69,493
Virginia, SBCV	**161,508**	162,705
West Virginia	**18,582**	18,346
Wyoming	**5,164**	5,800
Puerto Rico/U. S. Virgin Islands	**195**	199
Other	**30,344**	28,112
Total cooperative program	**$ 7,674,387**	$ 7,743,301

Southeastern Baptist Theological Seminary, Inc. and Subsidiary

Schedule of Expenditures of State Awards
Year Ended July 31, 2013

State Grantor/Pass-Through Grantor/Program Title	Expenditures
State Programs:	
Direct Programs:	
North Carolina State Education Assistance Authority:	
North Carolina Need-Based Scholarship Program	$ 174,850
Total State Awards	$ 174,850

See Note to Schedules of Expenditures of State Awards.

Note to Schedule of Expenditures of State Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of state awards includes state grant activity of the Seminary and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of North Carolina General Statute 143C-6.23. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

Schedule of Findings and Questioned Costs
Year Ended July 31, 2013

Section I. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Section II. Financial Statement Findings

No matters were reported

McGladrey

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Southeastern Baptist Theological Seminary, Inc.
Wake Forest, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Southeastern Baptist Theological Seminary, Inc. and Subsidiary (the Seminary), which comprise the consolidated statement of financial position as of July 31, 2013, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Seminary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Seminary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Seminary's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Seminary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Raleigh, North Carolina
October 16, 2013